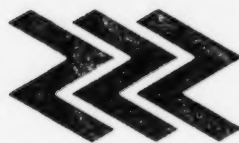


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**The 86th Annual Report of the
Ontario Northland Transportation Commission
for the year ending December 31, 1986**



**Province of Ontario
Honourable David Peterson Premier and Minister Northern Development and Mines**



ONTARIO

Ministry of
Northern Development
and Mines

The Honourable Lincoln M. Alexander
P.C., Q.C., C.St.J., B.A.
Lieutenant-Governor of the Province of Ontario

May it please your Honour:

I beg leave to present the 86th annual report of the Ontario Northland
Transportation Commission for the year ending December 31, 1986.

Respectfully submitted,

David Peterson
Premier and Minister of Northern Development and Mines

June 15, 1987

Ontario Northland

Honourable David Peterson
Premier and Minister of Northern Development and Mines
Parliament Buildings
Toronto, Ontario

Sir:

I beg to submit the annual report for the year 1986 of the Ontario Northland
Transportation Commission, and I have the honour to be, Sir,

Yours faithfully,

J.W. Spooner
Chairman, ONTC

June 1, 1987

Ontario Northland Transportation Commission

J.W. Spooner, Chairman, Timmins

M.P. Boreham, Commissioner, Elliot Lake

N.G. Forth, Commissioner, North Bay ... retired June 17, 1986

G.J. Gagnon, Commissioner, Hearst

N.M. Karam, Commissioner, Cochrane ... retired March 31, 1986

A.D. Mortson, Commissioner, Englehart ... retired June 16, 1986

R. Motlong, Commissioner, Sioux Narrows

M.R. Wright, Commissioner, Sault Ste. Marie ... retired June 17, 1986

W.B. Brayford, Commissioner, New Liskeard ... appointed June 18, 1986

R.G. Brisson, Commissioner, Cochrane ... appointed April 2, 1986

R.S. Lucenti, Commissioner, North Bay ... appointed June 18, 1986

M.D. Sinclair, Commissioner, Sudbury ... appointed June 18, 1986

E.T. Sutherland, Commissioner, Moose Factory ... appointed June 18, 1986

Principal Officers

P.A. Dymont, General Manager

D.E. MacDougall, Assistant General Manager

K.J. Moorehead, Senior Operating Officer - Rail

K.J. Wallace, Senior Officer, Marketing and Passenger Services

R.S. Hutton, Director, Telecommunication Services

E. Marasco, Senior Director, Passenger Services

T. O'Connell, Counsel

Visionaries could not have predicted the incredible timing of the growth of northeastern Ontario and the development of the Ontario Northland Transportation Commission system.

The first step towards the construction of a railway took place in 1900 when the Ontario Legislature appropriated \$40,000 to defray the cost of locating a railway from North Bay to New Liskeard - a distance of 150 kilometres. The original survey began in 1901 and traversed rugged country all the way. Supplies were taken in by canoe as there were no roads.

North Bay was designated as the southern terminus of the new provincial railway.

The Commission responsible for the new railway envisaged future development north of New Liskeard but they probably had not envisaged the almost immediate discovery of rich silver ore right on the railway's path near what is today Cobalt.

The Cobalt discovery was followed by

similar strikes at Porcupine Lake, Larder Lake, Gowganda Lake and Kirkland Lake in Ontario, and Rouyn in Quebec.

The Temiskaming and Northern Ontario Railway (T&NO) as it was then called seemed to be in the right place at the right time. Its growth kept pace with the north's expanding mining industries and provided a vital link between the small towns that seemed to pop up over-night along the railways corridor.

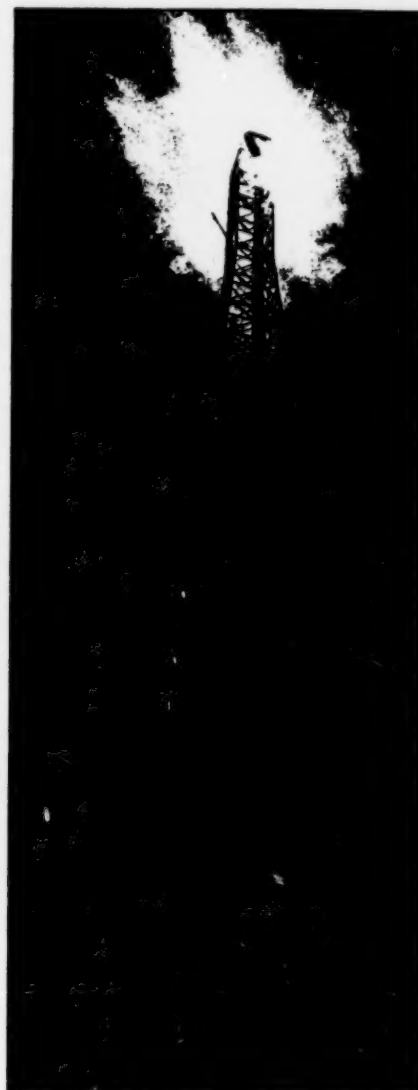
By 1912, the main line had been extended to Cochrane and new branch lines, such as those to the gold towns of Kirkland Lake and Porcupine (Timmins), were daily taking out minerals and timber and bringing in men and materials.

The T&NO had nearly 1500 employees on its payroll by 1914 and was a major employer in the region.

The construction of the final northern stretch of the railway, to the mouth of the Moose River was not attended by the mineral booms that had followed

the construction from North Bay two decades earlier, but it provided jobs through World War I and the depression that followed.

By 1932, the T&NO Railway was completed to Moosonee and the ONTC (re-named in 1946) began a process of lateral expansion, modernization and diversification.



Today's Diversified Services

The ONTC continues to play a vital role in "bringing the North together" for business and pleasure.

Its services are known to tourists as providers of interesting and unusual trips. For residents of the region, the ONTC provides year-round transportation through a modern system of trains, airplanes, buses and trucks and a telecommunication network that brings radio, television and telephone service to communities as far north as those on the shore of Hudson Bay.

Rail Services

Ontario Northland Rail, the rail division of ONTC, today operates the Northlander, a regular passenger service from Toronto to Timmins; the Northland, a daily train from Toronto to Kapuskasing; the Polar Bear Express and the Little Bear, running between Cochrane and Moosonee.

As in its earliest years, the major portion of the Rail Services is devoted to the transportation of minerals and timber from the resource-rich North.

Telecommunications

The former T&NO had strung telegraph lines along its path, right from its beginning. With the advent of the telephone, the ONTC moved into this new field. Today its telecommunications system forms an important link with Bell Canada and Northern Telephone Limited into the northeast's telecommunications network. In addition, communities around Hudson Bay are served by the ONTC link with the Telesat Satellite. The microwave tower at the left is located at Thibeault Hill in North Bay. There are 35 towers in the entire system.

Air Services

norOntair began operation in 1973 with two aircraft, serving Timmins, Sault Ste. Marie, Sudbury and Earlton. The demand for air service led to rapid growth and by 1980 norOntair was serving 21 communities. Its growth also saw the addition of the world's first Dash 8 aircraft, followed by an additional Dash 8 and one smaller aircraft.

Marine Services

ONTC operates three specialized water craft on diverse bodies of water. The most recent addition is the HV Manitou Island II, a passenger and cargo barge / ferry operating on James Bay, between Moosonee and Moose Factory. The ferry is an integral part of these communities and has also served to bring an increase of visitors on the Polar Bear Express.

Also serving residents, tourists and local business and industry is the passenger / motor vehicle ferry M.S. Chi-Cheemaun. The Chi-Cheemaun Stretch connects Tobermory with Manitoulin Island and offers a beautiful cruise on the Great Lakes.

It accommodates 140 cars and 600 passengers, providing meals and refreshments as it sails through the clear blue waters of Georgian Bay.

As well, there is an opportunity to "Sail a Legend", aboard the MV Chief Commanda II, an excursion through the corridors of time. Food and bar service is available on day cruises from North Bay to the Upper French River. The Chief Commanda retraces the path of the voyageurs across Lake Nipissing through a 40 mile cruise.



Bus Services

Regular bus service throughout northeastern Ontario between North Bay, Timmins, Hearst and Sault Ste. Marie, provides an important transportation service for residents and business. The buses also provide a connecting link with ONTC trains and airplanes.

Transportation

In transport, the 1960 acquisition of Star Transfer trucking lines has enabled the ONTC to offer customers a comprehensive shipping package that has remained competitive with national companies in the field.

In late 1986, the Star Transfer trucking operation joined with the Express Services to form an integrated "transport services" department for all highway transportation of freight.

General Manager's Report

The Ontario Northland Transportation Commission is a major employer in northeastern Ontario with approximately 1500 employees. Almost all residents and businesses in the area utilize some or all of our different services during the year.

We are a northern company, managed by northerners and serving the people of the north.

Hence it was a source of great pride for the Commission and for the region to have ONTC named in 1986 by the Financial Post as one of the 500 largest companies in Canada.

In addition to our growth in national stature, the year was marked by substantial investment in the future. We were also pleased to renew our long term commitment to northern Ontario this year in a variety of ways.

A new \$5 million headquarters in North Bay was completed in 1986 and consolidated over 200 employees who previously worked in six different locations throughout the city.

The construction of this building is an indication of our dedication to improving all of our services in northern Ontario. The building was dedicated to the employees who work in it, as an expression of the high regard we have for all our employees throughout the ONTC network.

The construction of an apartment complex adjacent to the new headquarters was also started. The \$9 million project for pensioners and other seniors will feature a very special living experience for our employees in their retirement years. The 138 apartments, craft and meeting rooms and outdoor pool are expected to be completed by the spring of 1988.

The complex, to be run as a commercial venture is an investment

of the Employees Pension fund.

The Commission also looked to the future of the region by initiating a unique and ambitious art collection that will be representational of northern Ontario and its artists. A commitment has been made to develop and expand the collection over the years to mirror the human element of northern Ontario and the area it serves. The collection will be on permanent display throughout the new headquarters.

There were also many milestones for ONTC in 1986.

A major agreement was reached with Northern Telephone Limited to install state-of-the-art digital equipment for five northern communities. The agreement is considered to be the first of its kind and sees ONTC subsidizing the local company for a large part of its capital cost.

This year in rail services we completely overhauled and refurbished a Northlander unit. We were so pleased with the work, done completely in our shops, that we took the train to the northern communities it serves to show it off. The public confirmed that our pride was warranted.

The major project of converting 20 commuter rail cars purchased from GO Transit, to intercity coaches is moving smoothly and efficiently. Again the work is being done mainly in our own shops and we feel that the quality is second to none. It is expected that three of the cars will be completed and in regular service by late 1987 and we will then have the newest intercity coaches in Canada.

The integration of Star Transfer and Express Services was completed this year in the initial phase of the rationalization of freight operations. Operations were computerized, a regional sales force appointed and an

aggressive marketing thrust initiated. All should assist in helping make the new Transport Services a successful commercial venture.

Other significant areas of growth throughout northern Ontario are in progress.

Architectural plans have been developed for a \$2 million rail / bus passenger terminal in Englehart with office space for train operations employees. A revamping of yard operations including maintenance and stores building are also planned. Major renovations to the Timmins Passenger Terminal, including a canopy for four buses, new BPX area, waiting room and general office space is being designed with construction to start in the summer of 1987.

Also during 1987, work will begin on a digital facility to link Timmins and Cochrane. Approximately 70 kilometres of this route will utilize fibre optics cable. This is the first of a four-phase long term plan to provide a fibre optics cable link from North Bay to Hearst.

During 1986 our commercial operations produced revenues of \$93,161,888, resulting in an income of \$14,648,036. The total operating expenditures were \$116.9 million and \$14.5 million was spent on capital expenditures.

Respectfully submitted,

Peter Dymant
General Manager

The Telecommunications Branch is the provider of all long distance services in northeastern Ontario. It also provides local telephone service in Moosonee, Temagami and Marten River areas.

In 1986, the Branch experienced another year of growth and improved performance. An increase in the number of messages carried and private line facilities leased led to a revenue growth of 6.0%. The increase in expenses was held to 4.4%, resulting in a rise of 9.2% net income.

Telecommunications continued its commitment to bring the most sophisticated and efficient technology available to northeastern Ontario. During 1986, several major projects were completed, including the installation of a new digital microwave radio facility between Smooth Rock Falls and Timmins at a cost of \$1.5 million. Part of this project included a three kilometer fibre optic cable link between the Timmins switching office and the Timmins microwave site.

Diesel generators previously used to operate telecommunications equipment at remote radio sites at Renison and Onakawana were replaced by an advanced transformer that takes power from Ontario Hydro's high voltage line. The new transformers have reduced both operating and maintenance costs.

A major agreement in 1986 was reached between ONTC and Northern Telephone Ltd. An expenditure of \$3 million by Ontario Northland will assist Northern Telephone in bringing digital switching equipment to New Liskeard, Haileybury, Cobalt, Earleton and Latchford in 1987. Modern equipment will be put into service in this area sooner than would otherwise have been possible as a result of the agreement. It will also reduce pressure for higher local telephone rates.

The agreement is considered to be the first of its kind between a toll company and a local telephone company.

One major event in 1986 was not planned. A spring flood destroyed the townsite of Winisk, located near Hudson Bay. As a result, the town was moved to a new location called Peawanuk, some 20 kilometres further inland. In conjunction with Telesat, ONTC moved its satellite earth station to Peawanuk to continue to meet the needs of the community. Disruption in service was minimal.

A great deal of work was also started during the year on new capital projects. In fact, over \$6 million dollars is expected to be spent on capital expenditures on telecommunications throughout northeastern Ontario in each of the next three years.

\$1.05 million will be spent to replace the local dial exchange at Moose Factory with modern equipment. As well, \$1.34 million will be spent on new digital toll switching equipment currently being installed at New Liskeard to handle long distance messages originating in the Tri-Town area. The digital microwave facilities will be extended from Smooth Rock Falls to Kapuskasing.

Also during 1987, work will begin on a digital facility to link Timmins and Cochrane. Approximately 70 kilometres of this route will utilize fibre optics cable. This is the first step of a four-phase plan to provide a fibre optics cable link between Timmins and North Bay. The long-term plan is to extend the new digital facilities from North Bay to Hearst.

Fibre optics use bursts of laser light to send messages through fine glass strands, in much the same way that copper wires carry electrical impulses. They are smaller and lighter than conventional cable, can carry more information, faster, more economically and with higher signal quality and reliability than conventional circuitry.

Freight Services

Approximately 94% of rail traffic handled by Ontario Northland is directly attributed to the mining and forest industries.

In 1986, the tonnage handled was slightly down (1.5%) as were revenues (3.5%). A reduction in mining sector traffic accounted for the bulk of this decrease, however, an impressive 5.1 million tons of freight was still handled by the rail facilities.

The transportation of concentrates and iron pellet decreased from last year as not as much of the product was available for shipment. Some recovery in the concentrate and pellet traffic is expected in 1987.

Pulpwood traffic to southern Ontario was also slightly reduced this year. This traffic is expected to decline further while the customer completes changes in plant operation.

Improved newsprint market conditions in late 1986 increased the volume of southbound traffic and this trend is expected to continue throughout 1987. A total of 7,500 cars of newsprint was transported during the year to markets in southern Ontario and the United States. This level of newsprint shipment should be maintained next year.

Averaging the needs of all user groups, a slight improvement in traffic levels could be expected in the upcoming years. However future trends are somewhat uncertain as the rail transportation industry moves closer to a deregulated environment and as competition from the trucking industry increases.

In September 1986 the Star Transfer trucking operation joined with the Express Services to form an

integrated "Transport Services" department for all highway transportation of freight. This is the initial phase in the rationalization of freight operations.

An 8,000 square foot terminal in North Bay was leased in 1986 and is now fully operational. Six new 1987 tractors were added to the fleet and have helped reduce down-time and added considerably to efficient operations.

A regional sales force was established during the year.

It is expected that Transport Services will have to continue its active marketing thrust to maintain the current traffic and revenue position.



Passenger Service Division And Tourism Development

ONTC's Passenger Services provide land transportation for residents of the region and also serve to bring tourists to various tourism attractions throughout northeastern Ontario.

In 1986, a Tourism Development Officer was appointed and a major effort is underway to develop the tourism potential of the entire region along the bus and rail corridors. ONTC is taking the lead in this endeavour to attract more people to northeastern Ontario by promoting it as a complete tourist package. In the future, the work of the Passenger Marketing and Tourism Development branch will involve not only efforts to increase ridership, but efforts to increase the public awareness profile of the region served. Chambers of Commerce and community officials have applauded the ONTC for its initiatives and leadership in regional promotion.

The Toronto Sales Office, based in Union Station, is expected to play a key role in targeting potentially major tourist markets in southern Ontario, the U.S. and abroad. The North Bay Sales Office complements these efforts and, in addition, promotes, packages and sells ONTC motor coach tours throughout the U.S. and Canada.

The Polar Bear Express and the Hannah Bay Goose Camp continued to serve as two very successful tourist attractions in 1986. In excess of 20,000 tourists travelled on the Polar Bear Express. This represents a slight decline in ridership of approximately 5% from 1985. There were 126 bookings at the Hannah Bay Goose Camp and, by all accounts, the hunt was another successful one. The Hannah Bay Goose Camp is located 45 air miles due east of Moosonee. In September and October, blue and snow geese in tens of thousands settle along the grasslands and flats of Hannah Bay. Guests are transported from the camp to the shooting grounds by powered freighter canoes. Cree



Indians act as guides and callers to bring the geese within range - an awesome sight for both hunters and photographers.

The Passenger Services division in total is responsible for overseeing all of the land passenger services operations of the ONTC, including maintenance and procurement of passenger equipment (rail and bus), station facilities, customer services and passenger marketing. Services provided include bus operations (scheduled, charters and tours), Northlander trains, the Northland (night) train, regular train service between Cochrane and Moosonee and the Polar Bear Express excursion train.

In 1986, an approximate 6% ridership decline was experienced by both bus

and rail services. A concerted effort will have to be made to improve services and revenues. It is felt that Expo '86 and competition from airline industry bargain flights contributed significantly to the overall decline in ridership. Those directly responsible for the operation of passenger services are to be commended for holding costs in adjustment to a fluctuating travel market.

In 1987, the Northlander and excursion trains are expected to show some improvement in ridership and the Northland train is expected to remain stable.

The bus industry in general throughout North America has experienced problems in recent years. Soaring insurance costs and a decline in ridership due to deregulated



airline competition has placed the industry in some difficulty. Overall, bus operations revenues were down marginally. Revenues from bus fares and charters were down, while revenues from bus tours and BPX were up significantly. The overall expenses were curtailed to a 2.3% increase. The greatest change in net operating position can be attributed to an unexpected 600% increase in insurance premiums which accounted for approximately 60% of the net operating loss.

The general decline in bus traffic and sharply increased operating costs have led to a review of each bus route on an individual basis. Changes in schedules are in the process of implementation after extensive analysis of the various routes and existing frequencies of bus services. With the involvement of community spokespeople, a balance has been struck between the needs of the clientele and a cost-effective, streamlined service.

Improvements in ridership in 1987 are expected in the regular bus schedule service and in bus tours. Bus charters are expected to remain stable.

In 1986, a "no smoking" policy was introduced on all scheduled bus runs. The policy has proven very popular and comments from clientele have been overwhelmingly favourable.

Future plans for passenger services facilities include major renovations to the Timmins passenger terminal. The project will include interior layout changes, exterior restoration of the station, and site development including under canopy bus parking. The bus maintenance operations in Timmins are expected to move to a new facility early in the new year.

Architectural plans have also been developed for a new train / bus passenger station in Englehart. When completed, the new building will also house divisional offices for Rail Services.



New Passenger Services

In 1986, plans got well underway for upgrading our fleet of rail passenger cars. One year ago, a major project to replace some of the aging fleet of rail passenger cars on the Ontario Northland trains was undertaken. In all, 20 commuter rail car shells were purchased from GO Transit. These shells are being converted from commuter to intercity coaches using state-of-the-art technology to reconstruct the cars interiors, sub-systems, electrical heating systems and air-conditioning systems. Auxiliary power units (APU's) are also being constructed in conjunction with the cars project to provide electric power for the train consist. When completed, this equipment will replace the last vestiges of steam in the ONTC network.

A special unit, New Passenger Services, was set in place in 1985 to co-ordinate the work of the various departments involved in these two construction projects. A handful of New Passenger Services and shop personnel are commended for working diligently to bring this major project closer and closer to reality.

Stripping of the cars is being done at Timmins and Cochrane shops and reconstruction of the cars and the construction of the APU's is taking place in the North Bay shops.

The total cost of the conversion projects is expected to be in the \$24.5 million range and completion will require approximately four years. It is expected that three cars and one APU will be completed and in regular service between Cochrane and Moosonee by the end of 1987.

Rail Services

The Rail Services Division consists of the Transportation, Mechanical and Engineering Departments.

The Transportation Department is responsible for the scheduling, control and operation of all trains on the system, as well as the operation of the various yards. The Mechanical Department handles the maintenance, repair, servicing, cleaning and inspection of all locomotives, freight cars, passenger cars, and other non-revenue equipment on Ontario Northland's lines. Under the aegis of the Engineering Department is the construction, maintenance and repair of all track, bridges, signal systems, culverts and most of the buildings of various types with Rail Services.

In 1986, the Mechanical Department completed the upgrading of the Northlander trainset and began the major project of converting GO cars into mainline coaches. A new dining car was purchased and renovated for the Polar Bear Excursion service and the building of a maintainer's car for Maintenance of Way was undertaken.



Speed and event recorders were installed on all freight locomotives and a project is in process to install low temperature protection units to enable the shutting down of idle locomotives in winter months. In addition, one locomotive was completely overhauled.

The auxiliary power supply units (APU's) on two Northlander locomotives were overhauled.

Some of the accomplishments of the Engineering Department during 1986 are as follows:

- 7.5 miles of worn main line rail was replaced with new continuous-welded rail
- 6.7 miles of secondhand rail was laid
- 48,228 track ties were replaced, along with 9 sets of switch ties
- two treated timber bridge decks were replaced, three steel bridges were repainted and a major culvert program was completed, including one new installation to replace a failed structure

- two abandoned freight sheds were demolished, and renovations completed at various stations and other buildings
- construction of the modern Maintenance of Way Repair facility at North Bay was completed
- major renovations to the North Bay Diesel Shop were started
- design work was done for a new Road Stores building in North Bay
- major renovations were made to the Outside Repair Track facility at North Bay
- flashing light crossing protection was installed on two crossings
- hot box detection equipment was upgraded
- two new high water detectors were installed
- two additional private sidings were installed at North Bay to serve railway freight customers



ONTC was given the task in 1973 to operate norOntair. It started with two aircraft serving four communities. The original mandate was to set up an infrastructure to operate an airline, to set standards and determine fares and schedules.

The objectives of the government at that time were to reduce the isolation of northeastern Ontario, enhance the industrial and commercial development of the area and to strengthen private carriers.

By 1980, norOntair was serving 21 communities with nine aircraft.

In 1986 a total of 98,200 passengers were carried representing an increase of 8.4% over the previous year.

However while ridership and revenues rose, operating costs increased a

dramatic 16.3% resulting in a total loss of 26.8% over 1985.

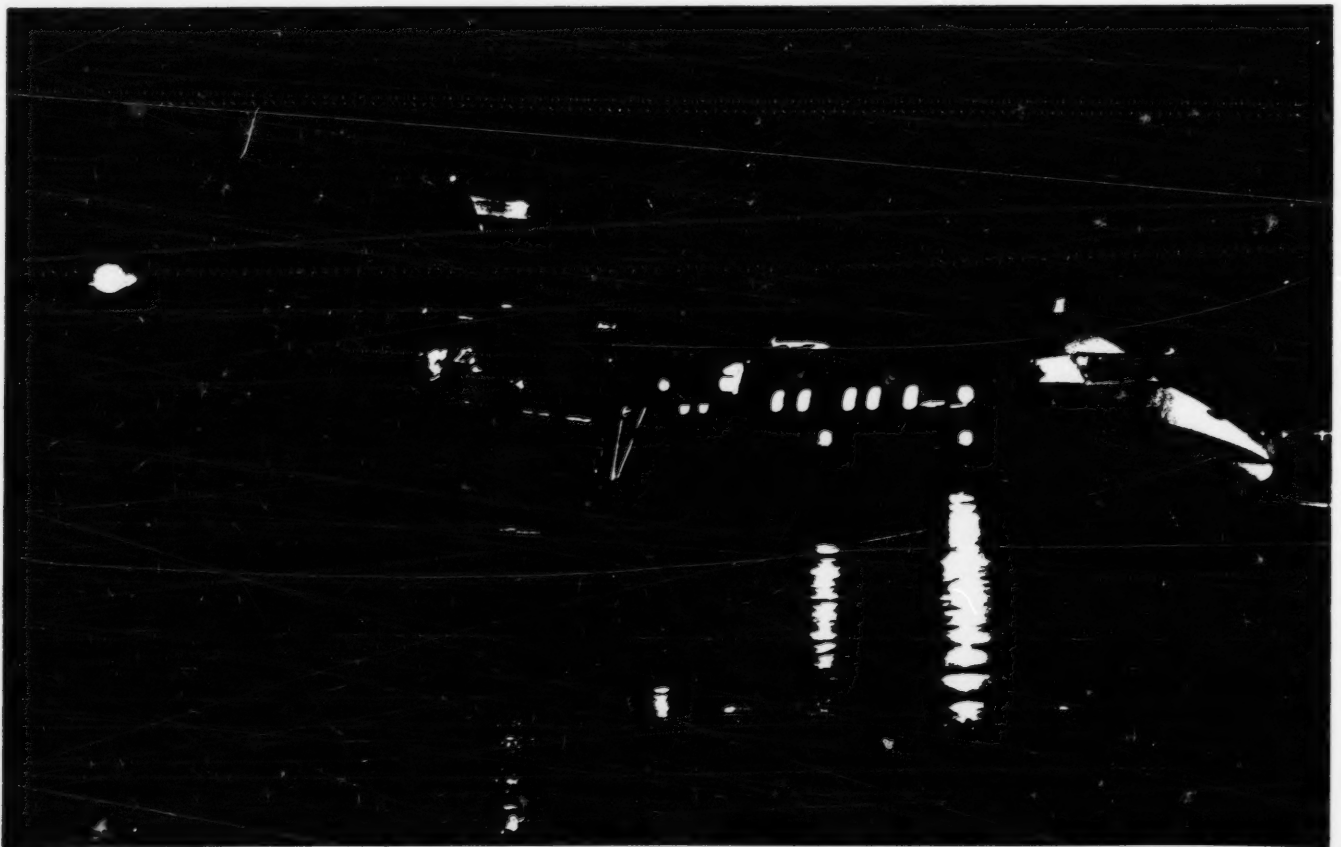
The existence and expansion of norOntair has played an important role in the stimulus for the growth of private air carriers in northern Ontario. Many of these carriers presently work under contract to norOntair and in fact, provide the bulk of its services. In addition, the regulatory body that governs the air industry is moving closer to deregulation. With this move to deregulation a more competitive environment for air services has developed.

At the same time as the Commission is operating norOntair with large subsidy needs, there is clear evidence that the private sector is willing and prepared to provide air service to at least some of the

communities served by norOntair. It is felt that the time may be right to explore the possibility of the private sector taking over some or all of these services and relieving the government of a large subsidy.

In view of this new competitive climate, and in view of the fact that norOntair has fulfilled its original mandate, ONTC in 1987 will be requesting proposals from qualified carriers to determine to what extent, if any, they would be prepared to assume some or all of the norOntair route.

In reviewing proposals, a strong emphasis will be placed on considering the needs of individual communities and norOntair personnel.



Marine Services

The ONTC operates three ferry services - the M.S. Chi-Cheemaun between Tobermory and Manitoulin Island, The M.V. Chief Commanda II between North Bay and the upper French River, and the M.V. Manitou Island II between Moosonee and Moose Factory.

Although revenues increased over 1985 on all three services, significant increases in expenditures were also realized.

The Chi-Cheemaun in its 12th year of operation, carried 242,308 passengers and 82,442 cars. Revenue increased by 6.2%.

In 1986, a new state-of-the-art navigation system was installed at a cost of \$200,000. This system provides an electronic chart fed by apparatus on shore through a shipboard computer and shows the true or relative motion of the vessel. This new navigation system will greatly enhance the safety factor and reliability of the Chi-Cheemaun.

Expenditures also increased in 1986 as it underwent its compulsory five-year hull inspection. This was completed in Thunder Bay at a cost of \$300,000.

The M.V. Chief Commanda II continues to serve as the most popular tourist attraction in the North Bay area. The total number of passengers carried was 19,318, a slight decrease from 1985. Revenues however were up 8.7%.

Again expenditures increased considerably from the previous year due to the overhaul of main engine equipment. In addition, to meet Canadian Coast Guard Ship Safety Inspections standards, a major overhauling of other equipment was required.

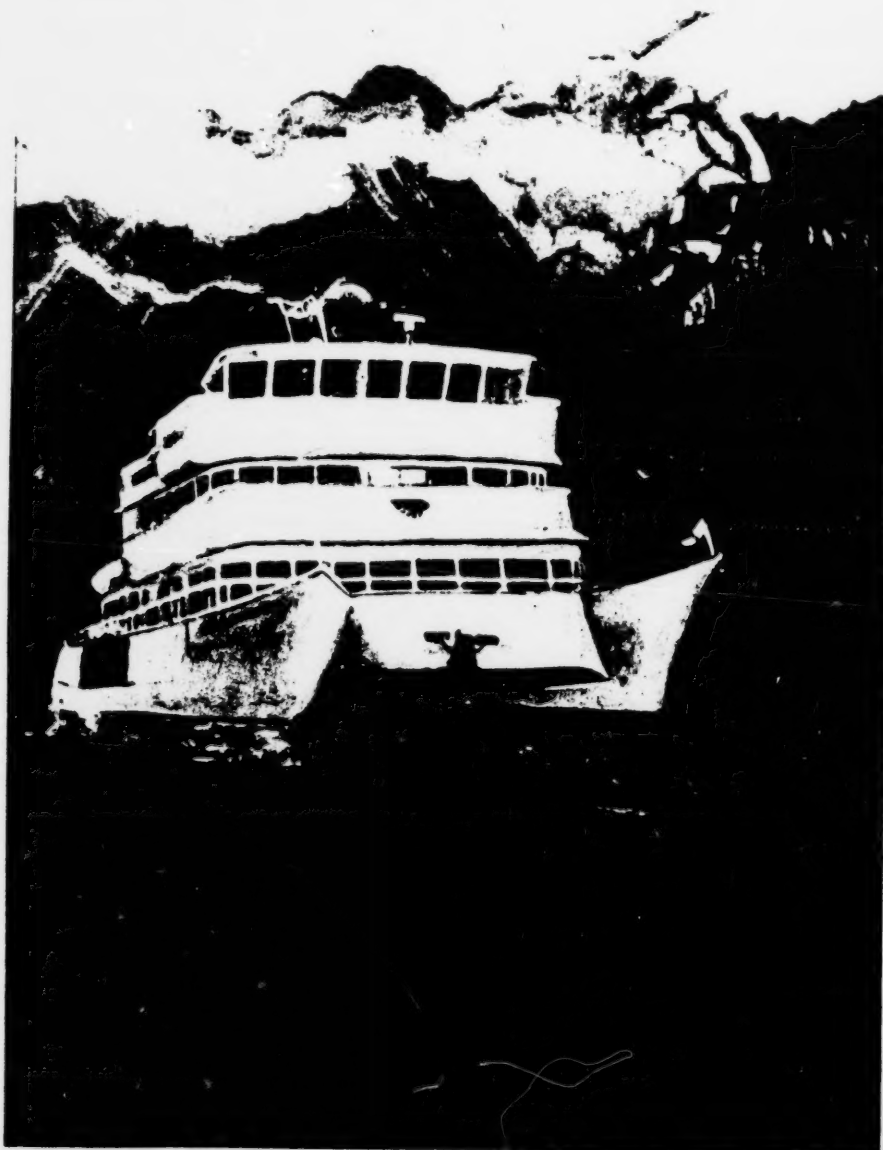
The M.V. Manitou Island II carries passengers and supplies. This years increase in revenues can be attributed to construction on the island and the movement of large quantities of

freight. In addition, although plagued by low water levels on the Moose River, the ferry completed its longest season in operation.

A considerable decrease in expenditures was experienced as the

vessel had previously received extensive machinery repairs in 1985.

There is not expected to be any significant change in the operation of these services in 1987.



Financial Statements

Ontario Northland Transportation Commission
CONSOLIDATED BALANCE SHEET
as at December 31, 1986

Assets		1986	1985
		\$	\$
Current Assets	Cash and short term investments	11,294,485	1,993,753
	Accounts receivable	14,571,826	15,812,081
	Due from Contributory Pension Fund (note 7)	526,429	—
	Materials and supplies	6,078,294	5,532,673
	Prepaid expenses	165,075	175,163
		<u>32,636,109</u>	<u>23,513,670</u>
Long Term Investments - at cost	Government bonds (market value \$26,935,000; 1985 - \$22,596,000)	<u>23,865,029</u>	<u>19,767,627</u>
Other Assets - at cost	Self insurance fund (note 2) (market value \$2,009,000; 1985 - \$1,718,000)	1,835,349	1,538,448
	Bus franchises	297,679	297,679
	Investment in Telesat Canada	150,000	150,000
		<u>2,283,028</u>	<u>1,986,127</u>
Investment in Property - at cost less accumulated depreciation (schedule 1)		<u>174,072,188</u>	<u>169,729,826</u>
		<u>232,856,354</u>	<u>214,997,250</u>

See accompanying schedules and notes to consolidated financial statements.

Approved on behalf of the Commission:

Commissioner

General Manager

Ontario Northland Transportation Commission
CONSOLIDATED BALANCE SHEET
as at December 31, 1986

Liabilities and Equity		1986 \$	1985 \$
Current Liabilities	Accounts Payable and accrued charges	<u>17,518,597</u>	<u>15,657,700</u>
Deferred Revenue	(note 5)	<u>1,447,824</u>	<u>1,602,856</u>
Provision for Self Insurance	(note 2)	<u>1,835,349</u>	<u>1,538,448</u>
Long Term Debt	Loan from Province of Ontario non-interest bearing	<u>35,207,935</u>	<u>35,207,935</u>
Province of Ontario Equity	Contributed surplus	<u>22,832,714</u>	<u>24,752,416</u>
	Retained income	<u>154,013,935</u>	<u>136,237,895</u>
		<u>176,846,649</u>	<u>160,990,311</u>
		<u>232,856,354</u>	<u>214,997,250</u>

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF INCOME
for the year ended December 31, 1986

		1986 \$	1985 \$
Operating Revenues	Commercial (schedule 3)	93,161,888	92,134,773
	Non-Commercial (schedule 4)	<u>13,928,905</u>	<u>14,026,231</u>
Total operating revenues		<u>107,090,793</u>	<u>106,161,004</u>
Operating Expenditures	Commercial (schedule 3)	78,513,852	76,034,589
	Non-Commercial (schedule 4)	<u>38,345,441</u>	<u>35,984,275</u>
Total operating expenditures		<u>116,859,293</u>	<u>112,018,864</u>
Loss from operations before the following		<u>9,768,500</u>	<u>5,857,860</u>
Investment Income	Interest expense	(200,048)	(901,818)
	Interest earned	3,279,755	3,778,721
	Gain on sale of bonds	<u>278,765</u>	<u>415,024</u>
Net investment income		<u>3,358,472</u>	<u>3,291,927</u>
Special payment to pension fund (note 3)		<u>2,209,037</u>	<u>3,001,118</u>
Net loss before Government reimbursement		8,619,065	5,567,051
Government reimbursement (schedule 2 and note 4)		<u>26,395,105</u>	<u>23,866,045</u>
Net income for the year		<u><u>17,776,040</u></u>	<u><u>18,298,994</u></u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF RETAINED INCOME
for the year ended December 31, 1986

	1986 \$	1985 \$
Balance, beginning of year	136,237,895	117,938,901
Add net income for the year	<u>17,776,040</u>	<u>18,298,994</u>
Balance, end of year	<u>154,013,935</u>	<u>136,237,895</u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
for the year ended December 31, 1986

	1986 \$	1985 \$
Balance, beginning of year	24,752,416	20,328,060
Add:		
- norOntair aircraft and associated equipment	90,014	6,140,715
- Capital expenditures of The Owen Sound Transportation Company, Limited	<u>215,409</u>	<u>79,051</u>
	25,057,839	26,547,826
Less:		
depreciation charges for the year	<u>2,225,125</u>	<u>1,795,410</u>
Balance, end of year	<u>22,832,714</u>	<u>24,752,416</u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1986

		1986 \$	1985 \$
Operating Activities	Cash provided from (used in) operations (see below)	916,670	(4,459,297)
	Government reimbursement	26,395,105	23,866,045
		<u>27,311,775</u>	<u>19,406,748</u>
Financing Activities	Capital reimbursement from the Province	305,423	6,219,766
	Repayment of long term debt	—	(13,000,000)
		<u>305,423</u>	<u>(6,780,234)</u>
Investing Activities	Net investment in fixed assets	(14,484,243)	(22,527,899)
	Purchase of bonds	(5,854,863)	(6,999,688)
	Proceeds from sale of bonds	2,168,000	13,720,900
	Proceeds from sale of fixed assets	381,069	492,172
	Contributory Pension Fund advances	(526,429)	—
		<u>(18,316,466)</u>	<u>(15,314,515)</u>
Increase (decrease) in cash and short term investments during the year		9,300,732	(2,688,001)
Cash and short term investments, beginning of year		<u>1,993,753</u>	<u>4,681,753</u>
Cash and short term investments, end of year		<u><u>11,294,485</u></u>	<u><u>1,993,753</u></u>
Cash provided from (used in) operations is derived as follows:			
Net loss before Government reimbursement		(8,619,065)	(5,567,051)
Add (deduct):	Depreciation	7,535,687	6,929,209
	Amortization and gain on sale of bonds	(410,539)	(605,719)
	Gain on return of leased trailers	—	(91,589)
	Decrease (increase) in accounts receivable	1,240,255	(2,663,816)
	Increase in material, supplies and prepaids	(535,533)	(1,145,094)
	Increase (decrease) in accounts payable	1,860,897	(2,918,093)
	Increase (decrease) in deferred revenue	(155,032)	1,602,856
Cash provided from (used in) operations		<u><u>916,670</u></u>	<u><u>(4,459,297)</u></u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF INVESTMENT IN PROPERTY
as at December 31, 1986

SCHEDULE 1

		1986 \$	1985 \$
Rail	Roadway		
	Buildings	106,018,697	102,227,019
	Equipment	15,043,687	13,914,751
		40,732,326	40,858,795
Telecommunications		54,809,295	52,885,634
Buses		2,315,162	2,315,162
Boats		927,413	927,413
norOntair	aircraft	15,542,700	15,525,610
	other	2,010,106	1,967,198
Remote North power and communications		278,298	278,298
Star Transfer Limited	vehicles	2,414,213	2,516,418
	other	960,647	882,678
The Owen Sound Transportation Company, Limited	vessel	9,880,765	9,665,356
	other	395,158	395,158
Gross investment in property		251,328,467	244,359,490
Less accumulated depreciation		93,763,881	85,529,696
Net investment in property		157,564,586	158,829,794
Under construction		16,507,602	10,900,032
		<u>174,072,188</u>	<u>169,729,826</u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF PROVINCIAL GOVERNMENT REIMBURSEMENT
for the year ended December 31, 1986

SCHEDULE 2

		1986 \$	1985 \$
From Province of Ontario	Cochrane - Moosonee branch line	8,328,400	7,784,932
	Main line passenger train	5,630,200	5,697,229
	Northlander	5,899,400	5,197,878
	Remote North power and communications	—	89,406
	Air services - norOntair	5,766,426	4,546,971
	Moosonee ferry	<u>42,706</u>	<u>91,656</u>
		25,667,132	23,408,072
The Owen Sound Transportation Company, Limited		<u>727,973</u>	<u>457,973</u>
Total Provincial Government reimbursement (note 4)		<u>26,395,105</u>	<u>23,866,045</u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF COMMERCIAL OPERATIONS
for the year ended December 31, 1986

SCHEDULE 3

		1986 \$	1985 \$
Rail Freight Services	Revenue	45,350,731	46,988,449
	Expenditures	41,440,896	40,627,108
	Income from operations	<u>3,909,835</u>	<u>6,361,341</u>
Telecommunications	Revenue (note 6)	38,430,574	36,270,907
	Expenditures	25,580,035	24,503,706
	Income from operations	<u>12,850,539</u>	<u>11,767,201</u>
Bus Services	Revenue	3,792,432	3,849,863
	Expenditures	4,356,428	4,256,401
	Loss from operations	<u>(563,996)</u>	<u>(406,538)</u>
Transport / Express Services	Revenue	5,034,911	4,595,011
	Expenditures	6,432,614	6,103,482
	Loss from operations	<u>(1,397,703)</u>	<u>(1,508,471)</u>
Marine Services (North Bay)	Revenue	303,025	278,673
	Expenditures	463,532	421,684
	Loss from operations	<u>(160,507)</u>	<u>(143,011)</u>
Tourist Facilities (Hannah Bay)	Revenue	140,867	151,870
	Expenditures	110,566	122,208
	Income from operations	<u>30,301</u>	<u>29,662</u>
Remote North Power	Revenue	109,348	---
	Expenditures	129,781	---
	Loss from operations	<u>(20,433)</u>	<u>---</u>
Total Commercial Operations	Operating revenues	93,161,888	92,134,773
	Operating expenditures	78,513,852	76,034,589
	Income from operations	<u>14,648,036</u>	<u>16,100,184</u>

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
SCHEDULE OF NON-COMMERCIAL OPERATIONS
for the year ended December 31, 1986

SCHEDULE 4

		1986 \$	1985 \$
Rail Passenger Services	Revenue	4,773,336	5,295,569
	Expenditures	22,652,767	22,067,607
	Loss from operations	17,879,431	16,772,038
	Government reimbursement	19,858,000	18,680,039
	Net gain from operations	1,978,569	1,908,001
Air Services (norOntair)	Revenue	5,169,903	4,854,093
	Expenditures	10,936,329	9,401,064
	Loss from operations	5,766,426	4,546,971
	Government reimbursement	5,766,426	4,546,971
Marine Services (Owen Sound)	Revenue	3,914,678	3,684,472
	Expenditures	4,642,651	4,142,445
	Loss from operations	727,973	457,973
	Government reimbursement	727,973	457,973
Marine Services (Moosonee)	Revenue	70,988	68,157
	Expenditures	113,694	159,813
	Loss from operations	42,706	91,656
	Government reimbursement	42,706	91,656
Remote North Communications	Revenue	—	34,280
	Expenditures	—	83,789
	Loss from operations	—	49,509
	Government reimbursement	—	49,509
Remote North Power	Revenue	—	89,660
	Expenditures	—	129,557
	Loss from operations	—	39,897
	Government reimbursement	—	39,897
Total Non-Commercial Operations	Operating revenues	13,928,905	14,026,231
	Operating expenditures	38,345,441	35,984,275
	Loss from operations	24,416,536	21,958,044
	Government reimbursement	26,395,105	23,866,045
	Net gain from operations	1,978,569	1,908,001

See accompanying schedules and notes to consolidated financial statements.

Ontario Northland Transportation Commission
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1986

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

These consolidated financial statements are prepared in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Star Transfer Limited and The Owen Sound Transportation Company, Limited.

(b) Materials and supplies

With the exception of used rail, all materials and supplies are shown at cost. Used rail is shown at estimated utility value.

(c) Investment in property and depreciation

Fixed assets are stated at acquisition cost.

Depreciation is calculated on a straight-line basis over the estimated service lives of the assets with the exception of vehicles which are depreciated at thirty per cent per annum on the diminishing balance basis. Depreciation generally is based on asset balances at the beginning of the year.

The rates used for railway properties are as authorized by the Canadian Transport Commission.

The estimated service lives used for principal categories of assets are as follows:

Road - main line and branches	20 to 200 years
Railway diesel locomotives	25 years
Railway cars	33 years
Vessel	33 years
Telecommunications equipment	15 years
Aircraft	10 years
Boats	20 years

The province of Ontario reimburses the Commission for the costs of certain fixed assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Contributed Surplus. Annual depreciation on these fixed assets is recorded as a reduction to Contributed Surplus.

(d) Income taxes

As Crown Corporations of the Province of Ontario, the Commission and its wholly-owned subsidiaries are exempt from income taxes and accordingly no tax provision is reflected in operations.

2. SELF-INSURANCE

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets.

3. CONTRIBUTORY PENSION FUND

The Commission acts as the trustee for the Contributory Pension Fund, which covers all permanent staff of the Commission and which had assets of \$161,558,030 at December 31, 1986. Based on the latest actuarial valuation dated December 31, 1984, the Commission's Contributory Pension Fund had an unfunded liability of \$16,937,364. This amount was comprised of the following:

Initial unfunded liability as of January 1, 1965	\$19,443,107
Actuarial surplus identified as at December 31, 1984	<u>(2,505,743)</u>
	<u><u>\$16,937,364</u></u>

The Commission will continue to make annual interest payments of \$1,185,615 into the Fund in order to prevent an increase in the unfunded liability.

In addition, the Commission made an extra payment of \$2,209,037 (1985 - \$3,001,118) into the Fund. The impact of these special payments on the unfunded liability will be reflected in the next actuarial valuation.

4. PROVINCIAL GOVERNMENT REIMBURSEMENTS

In accordance with the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission and its subsidiaries have been designated as non-commercial and receive annual operating subsidies, the details of which appear on Schedule 2.

The subsidy amount for the non-commercial rail operations, which consist of the Cochrane-Moosonee branch line and main line passenger train services, allows the Commission to earn an annual rate of return equal to the lesser of 9.325 per cent or the actual rate of return earned on the total of the Commission's commercial operations for the same year. For all other non-commercial operations shown on Schedule 2, the subsidies equal the operating losses for the year.

5. DEFERRED REVENUE

In 1985, the Commission received \$1,740,000 as full settlement for revenue lost through the rerouting of certain long distance telephone traffic. This amount is being amortized to income over the eight remaining years of the original agreement.

6. TELECOMMUNICATIONS REVENUE AGREEMENTS

The Commission has revenue-sharing agreements with Bell Canada and Northern Telephone Limited, subsidiaries of Bell Canada Enterprises Inc. These revenue-sharing agreements may be terminated by either party after giving 180 days and 60 days prior notice, respectively. Approximately 78 per cent (1985 - 77 per cent) of telecommunications revenues depend on these agreements.

7. DUE FROM CONTRIBUTORY PENSION FUND

During the year, the Commission paid \$526,429 towards the costs of construction of a senior citizens' apartment building having an estimated total cost of \$9.4 million. It is the Commission's intention that, upon completion, this investment will be held and managed by the Contributory Pension Fund.

8. COMMITMENT

Under an agreement dated September 24, 1986, the Commission is committed to pay \$3,000,000, in varying installments during 1987, to Northern Telephone Limited, to cover a portion of the cost of modernizing that company's telecommunications equipment.

9. SUBSEQUENT EVENTS

(a) Telecommunications Revenue

The Commission uses tariffs established by Bell Canada to charge for certain long distance services within its territory. On October 14, 1986, the Canadian Radio-Television and Telecommunications Commission directed Bell Canada to lower its rates for long distance services. Effective January 1, 1987 the Commission similarly reduced its rates by an average of 20 per cent for long distance calls within Ontario and Quebec. The effect of the decrease in rates upon the Commission's future telecommunication income cannot be reasonably estimated because of the difficulty in predicting the offsetting impact of a rate reduction upon the volume and duration of long distance calls.

(b) Owen Sound Transportation Company, Limited

Under proposed changes to the Memorandum of Understanding between the Commission and the Minister of Northern Development and Mines, the Owen Sound Transportation Company, Limited would be designated as a commercial operation commencing January 1, 1987. As such, certain capital expenditures as well as operating losses of the Company would no longer be recoverable from the Province. Any operating profits would accrue to the Commission.

10. COMPARATIVE FIGURES

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

11. REMUNERATIONS TO COMMISSIONERS

During the year a total of \$63,651 was paid to the Commissioners.

To the Ontario Northland Transportation Commission and to
the Minister of Northern Development and Mines.

I have examined the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1986 and the consolidated statements of income, retained income, contributed surplus and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
April 3, 1987

D.F. Archer, F.C.A.,
Provincial Auditor.

Ontario Northland Transportation Commission
CONTRIBUTORY PENSION FUND
STATEMENT OF CHANGES IN FUND BALANCE
for the year ended December 31, 1986

		1986 \$	1985 \$
Contributions			
	Employees Commission	1,996,871	1,886,390
	Current service and supplementary benefits	2,019,557	1,910,160
	Payment toward unfunded liability (note 2)	3,394,652	4,186,733
		<u>7,411,080</u>	<u>7,983,283</u>
Income from investments	Interest and dividends	16,330,233	14,637,886
	Net gain on disposal	3,015,088	1,598,319
		<u>19,345,321</u>	<u>16,236,205</u>
		<u>26,756,401</u>	<u>24,219,488</u>
Disbursements	Pensions paid directly to pensioners	7,760,852	7,076,620
	Refunds of employee's contributions and interest	222,175	196,852
		<u>7,983,027</u>	<u>7,273,472</u>
Increase in the Fund for the year		18,773,374	16,946,016
Fund balance, beginning of year		<u>142,784,656</u>	<u>125,838,640</u>
Fund balance, end of year		<u>161,558,030</u>	<u>142,784,656</u>
Consisting of:	Assets		
	Cash and short term investments, at cost	22,162,896	5,616,750
	Stocks, at cost (market value \$6,896,940; 1985 - \$3,796,000)	6,963,190	3,714,261
	Accounts receivable	506,696	369,233
	Bonds, at cost (market value \$142,150,680; 1985 - \$143,026,000)	131,925,248	132,963,217
	Precious metals, at cost	—	121,195
		<u>161,558,030</u>	<u>142,784,656</u>

See accompanying notes to financial statement.

Approved on behalf of the Board:

Commissioner

General Manager

**Ontario Northland Transportation Commission
CONTRIBUTORY PENSION FUND
NOTES TO FINANCIAL STATEMENT
December 31, 1986**

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

This statement has been prepared on the cash basis of accounting, except for contributions which have been recorded on an accrual basis.

(b) Administration Expense

The cost of administration was borne by the Ontario Northland Transportation Commission.

2. UNFUNDED LIABILITY

Based on the latest actuarial valuation dated December 31, 1984, the Commission's Contributory Pension Fund had an unfunded liability of \$16,937,364. This amount was comprised of the following:

Initial unfunded liability as of January 1, 1965	\$19,443,107
Actuarial surplus identified at December 31, 1984	<u>(2,505,743)</u>
	<u>\$16,937,364</u>

The Commission and its subsidiaries will continue to make annual interest payments of \$1,185,615 into the Fund in order to prevent an increase in the unfunded liability.

In addition, in 1986 the Commission made an extra payment of \$2,209,037 (1985 - \$3,001,118) into the Pension Fund. The impact of these special payments on the unfunded liability will be reflected in the next actuarial valuation.

3. INVESTMENT IN APARTMENT COMPLEX

During the year, the Commission paid \$526,429 towards the costs of construction of a senior citizens' apartment building. These and future costs, estimated at \$8.9 million, will be borne by the Commission until such time as the property becomes an investment of the Fund.

To the Ontario Northland Transportation Commission and to
the Minister of Northern Development and Mines.

I have examined the statement of changes in fund balance of
the Ontario Northland Transportation Commission Contributory
Pension Fund for the year ended December 31, 1986. My
examination was made in accordance with generally accepted auditing
standards, and accordingly included such tests and other procedures as
I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the
assets of the Fund as at December 31, 1986 and its receipts and
disbursements for the year then ended in accordance with the basis of
accounting described in note 1a applied on a basis consistent with that
of the preceding year.

Toronto, Ontario
April 3, 1987.

D.F. Archer, F.C.A.,
Provincial Auditor.